MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2015/2016

BBF2124 – FINANCIAL MANAGEMENT II

(BM01 / BM02)

15 OCTOBER 2015
9 a.m. – 11 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 4 pages.
2. Answer all the 6 questions.
3. Please write your answer in the answer booklet provided.

QUESTION 1

Auto Bavaria, an Asian import company, is evaluating two mutually exclusive projects, A and B. The relevant cash flows for each project are given in the table below. The cost of capital for use in evaluating each of these equally risky projects is 10 percent.

	Project A	Project B
Initial Investment	$350,000	$425,000
Year	Cash Inflows (CF)	
1	$140,000	$175,000
2	165,000	150,000
3	190,000	125,000
4		100,000
5		75,000
6		50,000

(a) Which project should be chosen on the basis of the normal NPV approach?

(6 marks)

(b) Which project should be chosen using the Annualized NPV approach?

(6 marks)

(c) Which method should be applied by Auto Bavaria? Do provide a suitable reason(s).

(3 marks)

(Total: 15 marks)

QUESTION 2

Rotte Shoes Berhad has fixed operating costs of RM275,000, and variable cost per shoes of RM25. The shoes will be sold for RM75 each in Malaysia. The annual interest expense is RM150,000 and common shares outstanding is 1,000,000. The corporate tax rate for the current year is 25%.

(a) Compute EBIT and EPS at 50,000, 80,000, and 110,000 units.

(12 marks)

(b) Calculate degree of operating leverage, degree of financial leverage and degree of total leverage using 80,000 units as a base sales level.

(8 marks)

(Total: 20 marks)

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QUESTION 3

(a) Discuss the key arguments about dividend irrelevance theory advocated by Gordon and Lintner.

(9 marks)

(b) Zedan Berhad has a stockholders' equity account as shown below. The firm's common stock currently sells for RM6 per share.

	RM
Preferred stock	50,000
Common stock (400, 000 shares at RM1 par)	400,000
Paid-in capital in excess of par	1,540,000
Retained earnings	730,000
Total stockholders' equity	2,720,000

Calculate the common stock price after

(i) a 6-for-1 stock split;

(2 marks)

(ii) a 10% of stock dividend.

(4 marks)

(Total: 15 marks)

QUESTION 4

Diane Zoe is evaluating the Maju Xchange's common stock and warrants to choose the better investment. The firm's stock is currently selling for RM50 per share; its warrants to purchase three shares of common stock at RM45 are selling for RM20. Ignoring transaction costs, Diane Zoe has RM8 000 to invest. She is quite optimistic with respect to Maju Xchange because she has certain "inside information" about the firm's prospects with respect to a large future contract.

(a) How many shares of stock and how many warrants can Diane Zoe purchase?

(6 marks)

(b) Suppose Diane Zoe purchased the stock, held it for 1 year and then sold it for RM60 per share. What total gain (%) would she realize, ignoring brokerage fees and taxes?

(5 marks)

(c) Suppose Diane Zoe purchased warrants and held them for 1 year and the market price of the stock increased to RM60 per share. Ignoring brokerage fees and taxes, what would be her total gain if the market value of the warrants increased to RM45 and she sold out?

(5 marks)

Continued...

(d) What benefit, if any, would the warrants provide? Are there any differences in the risk of these two alternative investments? Explain.

(4 marks)

(Total: 20 marks)

QUESTION 5

You have been appointed as a Strategic Development Executive Officer (SDEO) of Star Media Group Berhad; a public listed corporation in Bursa Malaysia in control of printing media industry.

The board of directors instructed you to prepare a brief recommendations on the prospect that can be acquired through proper merger process. Do propose one public listed corporation for each of the following types of merger. For all cases, provide main benefits that can be obtained by the Star Media Group Berhad or the new entity.

(a) Horizontal merger

(5 marks)

(b) Congeneric merger

(5 marks)

(c) Conglomerate merger

(5 marks)

(Total: 15 marks)

QUESTION 6

Wood Apparel Ltd. headquatered in Singapore has a subsidiary in its neighboring country, Malaysia. The balance sheet and income statement of its subsidiary is shown as follows. The exchange rate was RM2.78/$ as at 31 December 2015. Compute the Singaporean dollar translated figures for the years ended 2015 and 2016, assuming that the Malaysian ringgit depreciates against the Singapore dollar by 8% (Assume the local currency figures in the statement below remain the same on 31 December 2016).

Translation of income statement			
	31/12/2015	31/12/2015	31/12/2016
	RM	$	$
Sales	750,000		
Cost of goods sold	200,000		
Operating income	550,000		

Continued...

Translation of Balance Sheet			
	31/12/15	31/12/15	31/12/16
Assets	RM	$	$
Cash	80,000		
Account receivables	75,000		
Plant and equipment	175,000		
Total assets	330,000		
Liabilities and Stockholders' equity			
Current liabilities	50,000		
Paid-in capital	120,000		
retained earnings	160,000		
Total liabilites and equity	330,000		

(Total: 15 marks)

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